

# **Southeastern Oakland County Water Authority**

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**Financial Report  
with Supplemental Information  
June 30, 2008**

# **Southeastern Oakland County Water Authority**

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## Independent Auditor's Report

To the Board  
Southeastern Oakland County  
Water Authority

We have audited the accompanying financial statements of the Southeastern Oakland County Water Authority as of and for the year ended June 30, 2008, as listed in the table of contents. These financial statements are the responsibility of Southeastern Oakland County Water Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Southeastern Oakland County Water Authority as of June 30, 2008 and the changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis is not a required part of the financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements of the Southeastern Oakland County Water Authority. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Plante & Moran, PLLC*

October 14, 2008



# **Southeastern Oakland County Water Authority**

## **Management's Discussion and Analysis**

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Our discussion and analysis of Southeastern Oakland County Water Authority's (the "Authority" of SOCWA) financial performance provides an overview of SOCWA's financial activities for the fiscal year ended June 30, 2008. Please read it in conjunction with the Authority's financial statements.

### **Financial Highlights**

Water sales were substantially under budget for the fiscal year ended June 30, 2008. Actual water sales were \$13,497,531 compared to budgeted water sales of \$14,347,198. For the fiscal year, sales were \$849,667 or 5.9 percent less than budgeted. Water sales were lower than budgeted for each month of the fiscal year. As a result, total revenues were \$802,936 below budget. Operating expenses were also below budget by \$684,822 leaving the Authority with sufficient revenue to cover the bond principal and interest payments. The amount available for reserves and capital outlays was \$770,150, which was \$118,114 less than budgeted. The debt coverage ratio was 201 percent for the fiscal year, which was lower than the 217 percent budgeted.

### **Overview of the Basic Financial Statements**

The discussion and analysis is intended to serve as an introduction to the Authority's financial statements. The Authority's basic financial statements comprise two components: 1) financial statements and 2) notes to the financial statements. This report also contains other supplemental information in addition to the basic financial statements themselves.

**Financial Statements** - The financial statements are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to a private sector business.

The statement of net assets presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in total net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The statement of revenues, expenses, and changes in net assets presents information showing how the Authority's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

The Authority is a single business-type activity. As such, charges for services are intended to recover all or a significant portion of the costs to provide services. The business-type activity of the Authority includes providing water services to member communities.

# **Southeastern Oakland County Water Authority**

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## **Management's Discussion and Analysis (Continued)**

**Notes to the Financial Statements** - The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. Please refer to the notes to the financial statements section of this report.

**Other Information** - In addition to the basic financial statements, this report also presents certain required supplemental information. This is limited to the budget analysis information and to this management discussion and analysis.

### **Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of the Authority's financial position. In the case of the Authority, assets exceed liabilities by \$13,655,090 at the close of the most recent fiscal year.

By far the largest portion of the Authority's net assets is invested in capital assets (e.g., land, buildings, vehicles, equipment, and infrastructure), less any related debt used to acquire those assets that is still outstanding. The Authority uses these capital assets to provide services to its member communities; consequently, these assets are not available for future spending. Although the Authority's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. A portion of the Authority's net assets is legally restricted for a specific purpose as imposed by sources outside the Authority. Additionally information on the Authority's restricted net assets can be found in Note 5 of this report.

# **Southeastern Oakland County Water Authority**

## **Management's Discussion and Analysis (Continued)**

The following table reflects the condensed statement of net assets compared to prior year:

### **Authority Net Assets**

	<u>2008</u>	<u>2007</u>
Current assets	\$ 2,978,690	\$ 3,009,996
Restricted assets	751,939	1,363,963
Other assets	220,350	254,567
Capital assets - Net	<u>16,365,045</u>	<u>16,505,329</u>
 Total assets	 20,316,024	 21,133,855
 Current liabilities	 2,010,392	 3,028,076
Noncurrent liabilities	<u>4,650,542</u>	<u>5,247,782</u>
 Total liabilities	 <u>6,660,934</u>	 <u>8,275,858</u>
 Net assets:		
Invested in capital assets -		
Net of related debt	11,865,045	11,430,329
Restricted assets	751,939	689,458
Unrestricted	<u>1,038,106</u>	<u>738,210</u>
 Total net assets	 <u><b>\$ 13,655,090</b></u>	 <u><b>\$ 12,857,997</b></u>

Operating activities after depreciation increased the Authority's net assets by \$851,441 accounting for 107 percent of the change in the Authority's net assets for the current year. This was primarily due to lower operating expenses. Nonoperating revenue and expenses accounted for a decrease of \$54,348 in net assets. A key element of this decrease was interest paid related to debt of \$186,075.

# **Southeastern Oakland County Water Authority**

## **Management's Discussion and Analysis (Continued)**

The following table reflects the condensed statement of revenue, expenses, and changes in net assets compared to prior year:

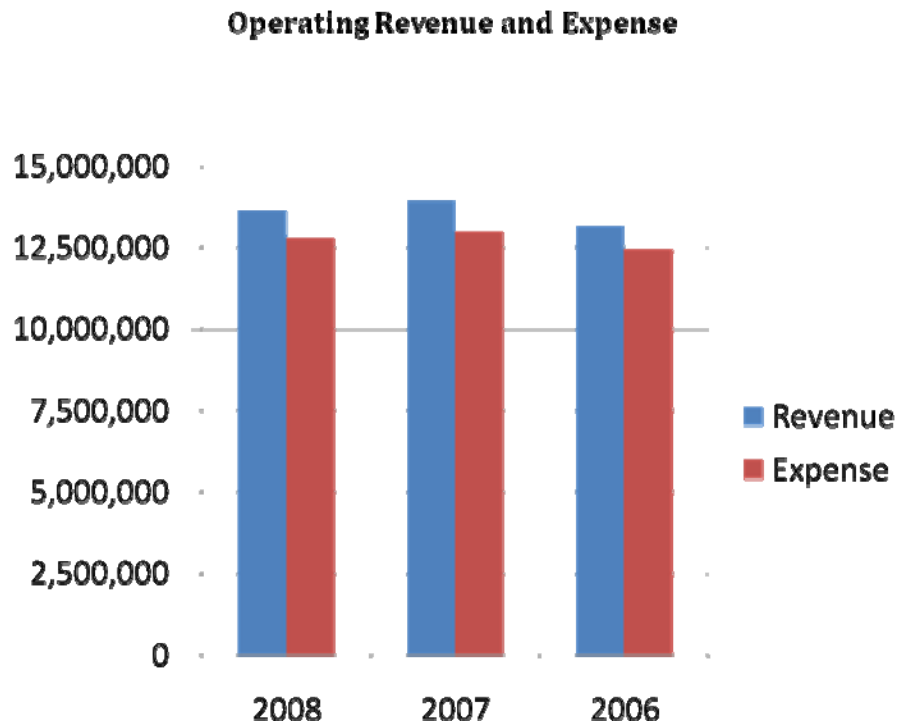
### **Authority Change in Net Assets**

	<u>2008</u>	<u>2007</u>
<b>Revenue</b>		
Charge for services	\$ 13,497,531	\$ 13,825,699
Rental	133,005	108,074
Operating grants	56,701	31,205
Interest and other	<u>81,516</u>	<u>125,575</u>
Total revenue	<u>13,768,753</u>	<u>14,090,553</u>
<b>Expenses</b>		
Operating expenses	12,238,447	12,406,753
Depreciation and amortization	548,057	587,934
Interest expense	186,075	199,013
(Gain) loss on disposal of capital assets	<u>(919)</u>	<u>205,657</u>
Total expenses	<u>12,971,660</u>	<u>13,399,357</u>
<b>Change in Net Assets</b>	797,093	691,196
<b>Net Assets - Beginning of year</b>	<u>12,857,997</u>	<u>12,166,801</u>
<b>Net Assets - End of year</b>	<u><b>\$ 13,655,090</b></u>	<u><b>\$ 12,857,997</b></u>

# Southeastern Oakland County Water Authority

## Management's Discussion and Analysis (Continued)

The following graph reflects the three-year trend of operating revenue and expense:



### Capital Asset and Debt Administration

**Capital Assets** - The Authority's investment in capital assets for its activities as of June 30, 2008 amounted to \$16,365,045 (net of accumulated depreciation). This investment in capital assets includes land, buildings, pump stations, elevated tanks, reservoirs, equipment, and infrastructure. In the current fiscal year, the Authority's total investment in capital assets decreased by 0.85 percent.

Major capital asset events during the fiscal year included the following:

- Engineering and construction expenses for replacement of our water main as part of the I I Mile Road Project
- Partial payment for the replacement of the roofs of Webster Station
- The meter SCADA project
- The replacement of a van



# Southeastern Oakland County Water Authority

## Management's Discussion and Analysis (Continued)

### Authority Capital Assets (net of depreciation)

	2008	2007
Land	\$ 1,153,643	\$ 1,026,171
Construction in progress	519,369	242,362
Pumping station	3,424,077	3,514,925
Elevated tanks	1,921,996	1,978,997
Reservoirs	2,292,791	2,292,791
Scada system	1,808,174	1,786,121
Transmission mains and accessories	15,397,384	15,674,830
Meters	900,992	831,671
Webster office	462,605	293,435
Equipment and other assets	1,503,758	1,475,904
Less accumulated depreciation	<u>(13,019,744)</u>	<u>(12,611,878)</u>
Total capital assets - Net of depreciation	<u><b>\$ 16,365,045</b></u>	<u><b>\$ 16,505,329</b></u>

Additional information on the Authority's capital assets can be found in Note 3 of this report.

**Long-term Debt** - At the end of the current fiscal year, the Authority had total debt outstanding of \$4,500,000 made up entirely of the Series 2003 water system revenue refunding bonds.

The Authority's total debt decreased by \$1,150,000 or (20.4 percent) during the current fiscal year.

The Authority is currently rated Baa1 by Moody's and A- by Standard & Poors for general obligation bond issuance.

Additional information on the Authority's long-term debt can be found in Note 4 of this report.

# **Southeastern Oakland County Water Authority**

## **Management's Discussion and Analysis (Continued)**

### **Economic Factors and Next Year's Budgets and Rates**

The following factors were considered in preparing the Authority's budget for the 2008-2009 fiscal year:

- Increased employee wages of 3 percent for salaried employees and 2.5 percent for union employees
- Health insurance costs were increased by 10 percent.
- Water sales to the member communities were reduced by 2.7 percent in order to recognize our continuing decline in water sales.
- Water rates remained unchanged. The rates remaining unchanged reflect the recent \$0.04 increase for water purchased from the City of Detroit and a \$0.04 decrease for the operations of the Authority.
- Capital expenditures were estimated at \$560,000 and included \$400,000 for the completion of the replacement of our water main in conjunction with the reconstruction of I I Mile Road between Woodward and Coolidge
- A debt coverage ratio of 179 percent was budgeted in order to fund the capital projects identified above.

### **Request for Information**

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest in the Authority's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the General Manager, 3910 W. Webster, Royal Oak, Michigan 48073.

# Southeastern Oakland County Water Authority

## Statement of Net Assets June 30, 2008

### Assets

Cash and cash equivalents (Note 2)	\$ 475,625
Accounts receivable	1,797,644
Grant receivable	26,236
Other receivable - Related party (Note 6)	590,026
Other current assets	<u>89,159</u>
Total current assets	2,978,690
Restricted cash (Note 2)	751,939
Nondepreciable capital assets (Note 3)	1,673,012
Depreciable capital assets - Net (Note 3)	<u>14,692,033</u>
Total capital assets	<u>16,365,045</u>
Other assets - Bond discount and issuance cost (net of amortization)	<u>220,350</u>
Total assets	20,316,024

### Liabilities

Accounts payable	1,849,163
Other current liabilities	140,780
Arbitrage rebate payable	<u>20,449</u>
Total current liabilities	2,010,392
Noncurrent liabilities:	
Bond indebtedness (Note 4)	4,500,000
Accrued compensated absences (Note 4)	<u>150,542</u>
Total noncurrent liabilities	<u>4,650,542</u>
Total liabilities	<u>6,660,934</u>

### Net Assets

Invested in capital assets - Net of related debt	11,865,045
Restricted assets	751,939
Unrestricted	<u>1,038,106</u>
Total net assets	<u><u>\$ 13,655,090</u></u>

# Southeastern Oakland County Water Authority

## Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2008

### Operating Revenue

Member municipalities water charges	\$ 13,497,531
Rental income	133,005
Miscellaneous income	<u>7,409</u>

Total operating revenue 13,637,945

### Operating Expenses

Source of supply	10,165,019
Operating, maintenance, and administrative	<u>2,073,428</u>

Total operating expenses 12,238,447

Operating Income Before Depreciation and Amortization 1,399,498

Depreciation 513,840

Amortization 34,217

Net Operating Income 851,441

### Nonoperating revenue and expense

Grant revenue	56,701
Interest income	74,107
Bond interest expense	(186,075)
Gain on disposal of capital assets	<u>919</u>

Total nonoperating revenue and expense (54,348)

Change in Net Assets 797,093

Net Assets - Beginning of year 12,857,997

Net Assets - End of year \$ 13,655,090

# Southeastern Oakland County Water Authority

## Statement of Cash Flows Year Ended June 30, 2008

### Cash Flows from Operating Activities

Receipts from customers	\$ 12,976,750
Receipts from related party	322,277
Payments to suppliers	(11,948,373)
Payments to employees	<u>(766,201)</u>

Net cash provided by operating activities 584,453

### Cash Flows from Noncapital Financing Activities -

Proceeds from operating grants	61,670
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### Cash Flows from Noncapital Financing Activities

Purchase of capital assets	(374,436)
Proceeds on the sale of capital assets	1,799
Principal paid on bond indebtedness	(1,150,000)
Interest and fees paid on bond indebtedness	<u>(186,075)</u>

Net cash used in capital and related financing activities (1,708,712)

### Cash Flows from Investing Activities -

Interest received on investment	<u>74,107</u>
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Net Decrease in Cash and Cash Equivalent (988,482)

Cash and Cash Equivalents - Beginning of year 2,216,046

Cash and Cash Equivalents - End of year \$ 1,227,564

### Statement of Net Assets Classification of Cash and Cash Equivalents

Cash and cash equivalents	475,625
Restricted assets	<u>751,939</u>

Total \$ 1,227,564

### Reconciliation of Operating Income to Net Cash from Operating Activities

Net operating income	\$ 851,441
Adjustments to reconcile net operating income to net cash from operating activities:	
Depreciation and amortization	548,057
Increase in accounts receivable	(338,918)
Increase in other assets	(11,203)
Decrease in other accrued liabilities	(80,430)
Decrease in accounts payable	<u>(384,494)</u>

Net cash provided by operating activities \$ 584,453

# **Southeastern Oakland County Water Authority**

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## **Notes to Financial Statements June 30, 2008**

### **Note I - Summary of Significant Accounting Policies**

The accounting policies of the Southeastern Oakland County Water Authority (the "Authority" or SOCWA) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies:

#### **Reporting Entity**

The Authority was created in 1953 as a Michigan Public Corporation under Act Number 179 of the Michigan Public Act of 1952. The Authority provides a water supply system primarily to 11 municipal communities in Oakland County, Michigan. The Authority is governed by a Board of Trustees, with one member representing each constituent municipality. Principal funding for the Authority is derived from water charges to the member municipalities.

The Authority has followed the guidelines of Governmental Accounting Standards Board's Statement No. 14 and has determined that no entities should be consolidated into its financial statements as component units, entities for which the Authority is considered to be financially accountable. Therefore, the reporting entity consists of the primary government financial statements only.

#### **Basis of Presentation - Government-Wide Statements**

*Government-wide financial statements.* The statements of net assets and statement of revenues, expenses, and changes in net assets report information on all of the activities of the primary government (the Authority). The Authority engages in only business-type activities. Business-type activities rely to a significant extent on fees and charges for services.

#### **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

*Proprietary fund financial statements.* The proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows.

# **Southeastern Oakland County Water Authority**

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## **Notes to Financial Statements June 30, 2008**

### **Note I - Summary of Significant Accounting Policies (Continued)**

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the Authority's Enterprise Fund is charges to customers for sales and services. Operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Nonexchange transactions, in which the Authority gives (or receives) value without directly receiving (or giving) equal value in exchange, include grants, entitlements, and donations. On an accrual basis, revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements imposed by the provider have been satisfied.

SOCWA reports the following major proprietary fund:

*Water Fund* - This fund accounts for the activities of the Authority's water system.

The financial statements of the Authority follow private sector standards of accounting and financial reporting issued prior to December 1, 1989, unless those standards conflict with guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private sector guidance for their business-type activities and Enterprise Funds, subject to the same limitation. The Authority has elected not to follow subsequent private sector guidance.

Under the terms of grant agreements, the Authority funds certain programs by a combination of specific cost-reimbursement grants and general revenue. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the Authority's policy to first apply cost-reimbursement grant resources to such programs, followed by general revenues.

#### **Assets, Liabilities, and Net Assets**

**Bank Deposits and Investments** - The Authority's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

# **Southeastern Oakland County Water Authority**

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## **Notes to Financial Statements June 30, 2008**

### **Note I - Summary of Significant Accounting Policies (Continued)**

State statutes authorize the Authority to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers' acceptances, and mutual funds composed of otherwise legal investments.

Investments are stated at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. Investments that do not have established market values are reported at estimated fair value. Cash deposits are reported at carrying amounts.

**Receivables** - Receivables consist of amounts due from member communities and other water sales customers. These receivables are considered 100 percent collectable and, as such, no allowance for uncollectable account has been established.

**Other Assets** - Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as other assets in the financial statements.

**Restricted Assets** - The revenue bonds require amounts to be set aside for debt service principal and interest payments. These amounts have been classified as restricted assets.

**Capital Assets** - Capital assets, which include property, plant, equipment, and infrastructure assets are reported in the financial statements. Capital assets are defined by the Authority as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets, if any, is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year.



# **Southeastern Oakland County Water Authority**

## **Notes to Financial Statements June 30, 2008**

### **Note I - Summary of Significant Accounting Policies (Continued)**

Capital assets are depreciated using the straight-line method over the following useful lives:

<u>Asset Type</u>	<u>Depreciable Life</u>
Pumping stations	10-50
Elevated tanks	10-50
Reservoirs	10-50
Scada system	10-40
Transmission mains and accessories	25-100
Meters	10-30
Webster office	10-25
Equipment and other assets	5-25

**Compensated Absences (Vacation and Sick Leave)** - The Authority allows union employees to accumulate unused vested sick leave. Once an employee has accumulated not less than 960 hours (120 days), they shall receive payment at the end of the next fiscal year for all unused sick leave credits earned during the immediately preceding fiscal year. Once an employee has accumulated not less than 480 hours (60 days) and no more than 960 hours (120 days), they shall receive payment at the end of the next fiscal year for half of all unused sick leave credits earned during the immediately preceding fiscal year. The Authority allows non-union employees to accumulate unused vested sick leave. Once an employee has accumulated not less than 480 hours (60 days), they shall receive payment at the end of the next fiscal year for all unused sick leave credits earned during the immediately preceding fiscal year.

**Long-term Obligations** - Long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

# **Southeastern Oakland County Water Authority**

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## **Notes to Financial Statements June 30, 2008**

### **Note 2 - Deposits and Investments**

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. A local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Authority has designated one bank for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government, bank accounts, certificates of deposit, and local government investment pools, but not the remainder of state statutory authority as listed above. Southeastern Oakland County Water Authority's deposits and investment policies are in accordance with Public Act 196 of 1997.

The Authority's cash and investments are subject to several types of risk, which are examined in more detail below:

#### **Custodial Credit Risk of Bank Deposits**

Custodial credit risk is the risk that, in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority does not have a deposit policy for custodial credit risk. At year end, the Authority had no bank deposits that were uninsured and uncollateralized. The Authority evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable risk level are used as depositories.

#### **Interest Rate Risk**

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Authority's investment policy limits interest rate risk by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity and by investing operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pools. As of year end, the Authority had no investments subject to interest rate risk.

# Southeastern Oakland County Water Authority

## Notes to Financial Statements June 30, 2008

### Note 2 - Deposits and Investments (Continued)

#### Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Authority's investment policy limits credit risk by limiting investment to the safest type of securities, pre-qualifying the financial institution, brokers, dealer, intermediaries, and advisors with which the Authority will do business, and diversifying the investment portfolio so that potential losses on individual securities will be minimized. As of year end, the Authority held \$1,189,859 in a bank investment pool with Comerica Bank. The investments are not rated.

### Note 3 - Capital Assets

Capital asset activity for the year ended June 30, 2008 was as follows:

	Balance July 1, 2007	Additions	Disposals	Transfers	Balance June 30, 2008
<b>Business-type Activities</b>					
Capital assets - Not being depreciated:					
Land	\$ 1,026,171	\$ -	\$ -	\$ 127,472	\$ 1,153,643
Construction in progress	242,362	277,007	-	-	519,369
Total capital assets not being depreciated	1,268,533	277,007	-	127,472	1,673,012
Capital assets - Being depreciated:					
Pump stations	3,514,925	54,720	16,125	(129,443)	3,424,077
Elevated tanks	1,978,997	-	-	(57,001)	1,921,996
Reservoirs	2,292,791	-	-	-	2,292,791
Scada system	1,786,121	11,930	5,629	15,752	1,808,174
Transmission mains and accessories	15,674,830	-	-	(277,446)	15,397,384
Meters	831,671	-	-	69,321	900,992
Webster office	287,378	-	17,180	192,407	462,605
Equipment and other assets	1,481,961	30,779	67,920	58,938	1,503,758
Subtotal	27,848,674	97,429	106,854	(127,472)	27,711,777
Less accumulated depreciation	12,611,878	513,840	105,974	-	13,019,744
Total capital assets being depreciated - Net of accumulated depreciation	15,236,796	(416,411)	880	(127,472)	14,692,033
Business-type activities capital assets - Net	\$ 16,505,329	\$ (139,404)	\$ 880	\$ -	\$ 16,365,045

# Southeastern Oakland County Water Authority

## Notes to Financial Statements June 30, 2008

### Note 4 - Long-term Debt

The Authority issues bonds to provide for the acquisition and construction of major capital facilities. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

Long-term obligation activity is summarized as follows:

	Interest Rate	Maturing Through	Balance July 1, 2007	Additions	Reductions	Balance June 30, 2008	Due Within One Year
<b>Business-type activities</b>							
Revenue bonds - 2003 refunding bonds -	2.65% -						
Amount of issue - \$6,980,000	4.25%	2015	\$ 5,650,000	\$ -	\$ 1,150,000	\$ 4,500,000	\$ -
Bond discount, issuance, and deferred costs			(254,567)	-	(34,217)	(220,350)	(34,217)
Accrued compensated absences			152,333	-	1,791	150,542	-
			<u>\$ 5,547,766</u>	<u>\$ -</u>	<u>\$ 1,117,574</u>	<u>\$ 4,430,192</u>	<u>\$ (34,217)</u>

The accrued compensated absences represent the estimated liability to be paid employees under the Authority's sick, vacation, and longevity pay policies, net of the portion that is estimated will be paid currently.

**Advance Refunding** - During fiscal year 2004, the Authority issued \$6,980,000 in water supply system revenue refunding bonds and transferred \$6,918,500 to provide resources to purchase securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments on \$6,850,000 of refunded debt. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the statement of net assets. The refunded bonds were fully redeemed on January 1, 2004. This advance refunding was undertaken to reduce total debt service payments by \$674,506.

# **Southeastern Oakland County Water Authority**

## **Notes to Financial Statements June 30, 2008**

### **Note 4 - Long-term Debt (Continued)**

The annual requirements to service all debt outstanding as of June 30, 2008 (excluding compensated absences), including both principal and interest, are as follows:

	Principal	Interest
2009	\$ -	\$ 170,838
2010	600,000	152,838
2011	625,000	131,588
2012	625,000	108,463
2013	625,000	84,088
2014-2016	2,025,000	87,513
Total	<u>\$ 4,500,000</u>	<u>\$ 735,328</u>

### **Note 5 - Restrictions of Net Assets**

Restricted net assets on the statement of net assets are legally restricted for specific purpose as imposed by sources outside the Authority.

The schedule of restricted net assets is as follows:

	Restricted Cash
Surplus Fund	\$ 20
Contruction Fund	410
Improvement Fund	71
Operations and maintenance reserve	-
Replacement reserve	50,187
Bond reserve accounts	<u>701,251</u>
Total restricted cash	<u>\$ 751,939</u>

# **Southeastern Oakland County Water Authority**

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## **Notes to Financial Statements June 30, 2008**

### **Note 6 - Risk Management**

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), and natural disasters. The Authority is a member of the Michigan Municipal League sponsored self-insurance/public entity risk pools. The Authority pays annual premiums to the respective pools for general liability, property, auto, worker's compensation, and employee fidelity insurance coverage. The agreements for the formation of the Michigan Municipal Liability and Property Fund and the Michigan Municipal Workers' Compensation Fund provide that the pools will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of limitations imposed by the pool. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past four fiscal years.

### **Note 7 - Related Party Transactions**

The Authority has developed a cost-sharing strategy for certain administrative salaries, operating expenses, and capital asset expenses with the Southeastern Oakland County Resource Recovery Authority (SOCRRA). The cost-sharing arrangements resulted in the Authority charging SOCRRA \$548,317 for the year ended June 30, 2008. In addition to these shared costs, the Authority also charges and receives an annual office rental fee from SOCRRA in the amount of \$45,000. As of June 30, 2008, the amount of payables due from SOCRRA was \$590,026.

### **Note 8 - Postretirement Benefits Other than Pension**

#### **Nonunion Employees**

The Authority sponsors a healthcare savings plan (the "plan"). The plan is a defined contribution public healthcare plan established effective January 1, 2002. The purpose of the plan is to accumulate funds to fully provide for the funding of healthcare benefits for the Authority's retirees and beneficiaries based on eligibility criteria established by the Board. Benefits under the plan are administered by MERS and provided pursuant to a group contract issued by Blue Cross Blue Shield of Michigan and individual contracts issued by healthcare insurance providers. The Authority's board has the authority to establish and amend benefit provisions.

# Southeastern Oakland County Water Authority

## Notes to Financial Statements June 30, 2008

### Note 8 - Postretirement Benefits Other than Pension (Continued)

At June 30, 2008, participants in the plan consisted of:

Retirees and beneficiaries currently receiving benefits	1
Active employees	8
	<hr/>
Total	9
	<hr/>

Employees are required to contribute to the plan based on eligible payroll. The contribution percentage for the year ended June 30, 2008 was 5 percent. Authority contributions are not required. The Authority did not make any contributions during the current year. A separate trust fund has been established for these assets and as such, these assets are not shown as part of the Authority's financial statements.

#### **Union Employees**

The Authority provides postretirement healthcare benefits to union employees and their dependents as established by board resolution. There are currently 19 retirees and dependents that receive these benefits. Expenses are recognized as insurance premiums become due and are netted against co-pays that are required from certain participants. During the year ended June 30, 2008, \$47,804 was recognized for postretirement health care.

**Upcoming Reporting Change** - The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree healthcare coverage over the working life of the employee, rather than at the time the healthcare premiums are paid. The new pronouncement is effective for the Authority's fiscal year ending June 30, 2010.

# **Southeastern Oakland County Water Authority**

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## **Notes to Financial Statements June 30, 2008**

### **Note 9 - Defined Benefit Pension Plan**

#### **Plan Description**

The Authority's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Authority participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the MERS Retirement Board. Act No. 427 of the Public Act of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan 48917 or by calling (800) 767-6377, or visiting [www.mersofmich.com](http://www.mersofmich.com).

All full-time Authority employees are eligible to participate in MERS. Service retirement benefits have a vesting period of 10, 15, 20, and 25 years of service depending on the employee's age at retirement. Payment of benefits is based on the benefit program in effect as of the date of termination of membership. Payment is based on 2.25 percent for union employees and 2.5 percent for salaried employees of three-year final average compensation multiplied by credited years of service. These benefits are established by resolution of the Authority and negotiation with the collective bargaining unit representing union employees.

#### **Funding Policy**

The Authority is required to contribute at an actuarially determined rate; the rate for the valuation year ended December 31, 2005, which was used to calculate the pension costs for the fiscal year ended June 30, 2008, is \$8,643 per month for union employees and 21.53 percent of annual covered payroll for salaried employees. Employees are currently not required to contribute to the Plan. The contribution requirements of the Authority are established, and may be amended, by the Retirement Board of MERS. The contribution requirements of plan members, if any, are established and may be amended by the Authority or through negotiations with the collective bargaining unit representing union employees.



# Southeastern Oakland County Water Authority

## Notes to Financial Statements June 30, 2008

### Note 9 - Defined Benefit Pension Plan (Continued)

#### Annual Pension Cost

For the year ended June 30, 2008, the Authority's annual pension cost of \$146,862 for MERS was equal to the Authority's required and actual contributions. The required contributions were determined as part of the December 31, 2005 actuarial valuations using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investments of present and future assets of 8.0 percent compounded annually, (b) projected salary increases of 4.5 percent per year compounded annually, attributable to inflation, and (c) additional projected salary increases of 0.0 percent to 4.16 percent per year, depending on age, attributable to seniority/merit.

The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect market value. The Authority's unfunded actuarial accrued liability for the salaried plan is being amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period at December 31, 2007, the date of the latest actuarial valuation, was 28 years. The Authority's unfunded actuarial accrued liability for the union plan is being amortized as a constant monthly expense. The remaining amortization period at December 31, 2007, the date of the latest actuarial valuation, was 18 years.

Three-year trend information is as follows:

Fiscal Year Ending	Actuarial Valuation Date	Annual Required Contribution	Percentage Contributed	Net Pension Obligation
6/30/2006	12/31/2003	\$ 157,919	100%	-
6/30/2007	12/31/2004	150,014	100%	-
6/30/2008	12/31/2005	146,862	100%	-

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/2005	\$ 4,644,858	\$ 6,729,167	\$ 2,084,309	69%	\$ 1,273,904	164%
12/31/2006	4,883,741	7,120,476	2,236,735	69%	1,300,427	172%
12/31/2007	5,089,086	7,393,403	2,304,317	69%	1,259,190	183%

## **Other Supplemental Information**

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# Southeastern Oakland County Water Authority

## Other Supplemental Information Schedule of Budget Analysis Year Ended June 30, 2008

	Original Budget	Actual	Over (Under) Amended Budget
<b>Revenue</b>			
Sale of water	\$ 14,347,198	\$ 13,497,531	\$ (849,667)
Grant revenue	20,000	56,701	36,701
Rental income	121,410	133,005	11,595
Interest on investments	60,000	74,107	14,107
Gain on sale of assets	-	919	919
Miscellaneous income	24,000	7,409	(16,591)
Total revenue	14,572,608	13,769,672	(802,936)
<b>Operating Expenses</b>	12,923,276	12,238,447	(684,829)
<b>Revenue in Excess of Operating Expenses</b>	1,649,332	1,531,225	(118,107)
<b>Amount of Bond Interest and Bond Maturities</b>			
Bond interest	186,075	186,075	-
Bond maturities	575,000	1,150,000	575,000
Total bond interest and bond maturities	761,075	1,336,075	575,000
<b>Amount Available for Reserves and Capital Outlay</b>	<u>\$ 888,257</u>	<u>\$ 195,150</u>	<u>\$ (693,107)</u>

# Southeastern Oakland County Water Authority

## Other Supplemental Information Schedule of Budget Operating Expenses Analysis Year Ended June 30, 2008

	Budget	Actual	Over (Under) Budget
Source of supply - Pump station operations and water purchases for resale	\$ 10,890,524	\$ 10,165,019	\$ (725,505)
Meters:			
Labor and supervision	32,500	33,151	651
Power and light	6,000	6,348	348
Cellular telephone	-	-	-
Maintenance of equipment	15,000	31,495	16,495
Total meters expense	53,500	70,994	17,494
Mains:			
Labor and supervision	32,500	25,840	(6,660)
Maintenance of equipment	12,000	8,645	(3,355)
Miss Dig	8,500	8,045	(455)
Total mains expense	53,000	42,530	(10,470)
Webster pump station operations:			
Labor and supervision	397,500	422,832	25,332
Utilities	48,000	43,013	(4,987)
Maintenance of equipment	9,000	6,470	(2,530)
Maintenance of building	8,000	6,616	(1,384)
Maintenance of property and grounds	8,000	7,736	(264)
Safety training	2,000	2,459	459
Safety maintenance and supplies	2,500	2,482	(18)
Supplies	10,000	6,630	(3,370)
Tools	5,000	2,469	(2,531)
Maintenance of reservoirs	1,500	1,012	(488)
Maintenance of tanks	1,000	450	(550)
Total Webster pump station expense	492,500	502,169	9,669
Webster computer operations:			
Labor and supervision	14,000	13,422	(578)
Website and internet	1,500	765	(735)
Computer hardware maintenance	8,000	11,608	3,608
Computer software maintenance	12,000	10,553	(1,447)
UPS	1,600	1,768	168
Total Webster computer operations	37,100	38,116	1,016
Webster - Purification:			
Labor and supervision	41,500	41,093	(407)
Maintenance of equipment	1,000	-	(1,000)
Supplies	20,000	15,731	(4,269)
Total Webster purification	62,500	56,824	(5,676)

# Southeastern Oakland County Water Authority

## Other Supplemental Information Schedule of Budget Operating Expenses Analysis (continued) Year Ended June 30, 2008

	Budget	Actual	Over (Under) Budget
Webster - Transportation:			
Labor and supervision	\$ 16,000	\$ 8,314	\$ (7,686)
Maintenance	-	-	-
Maintenance of equipment	15,000	30,438	15,438
Fuel	33,000	35,107	2,107
Total Webster transportation	64,000	73,859	9,859
Total Webster expense	656,100	670,968	14,868
Shafter - Pump station operations:			
Labor and supervision	17,000	13,973	(3,027)
Utilities	13,700	12,076	(1,624)
Maintenance of equipment	5,000	1,214	(3,786)
Maintenance of building	2,000	332	(1,668)
Maintenance of property and grounds	-	117	117
Total Shafter pump station expenses	37,700	27,712	(9,988)
Lamb - Pump station operations:			
Labor and supervision	17,000	14,050	(2,950)
Utilities	18,450	13,025	(5,425)
Maintenance of equipment	5,000	1,286	(3,714)
Maintenance of building	1,000	-	(1,000)
Total Lamb pump station expenses	41,450	28,361	(13,089)
12 Mile meter station:			
Labor and supervision	12,500	9,912	(2,588)
Utilities	1,800	1,302	(498)
Maintenance of equipment	2,000	243	(1,757)
Maintenance of building	500	52	(448)
Maintenance of property and grounds	500	60	(440)
Total 12 Mile meter station expense	17,300	11,569	(5,731)
Gare - Pump station operations:			
Labor and supervision	24,000	16,943	(7,057)
Utilities	16,450	19,304	2,854
Maintenance of equipment	5,000	2,071	(2,929)
Maintenance of building	500	88	(412)
Maintenance of property and grounds	1,000	654	(346)
Maintenance of reservoirs	500	-	(500)
Total Gare pump station expense	47,450	39,060	(8,390)

# Southeastern Oakland County Water Authority

## Other Supplemental Information Schedule of Budget Operating Expenses Analysis (continued) Year Ended June 30, 2008

	Budget	Actual	Over (Under) Budget
Oliver - Pump station operations:			
Labor and supervision	\$ 12,000	\$ 9,171	\$ (2,829)
Utilities	4,300	2,817	(1,483)
Maintenance of equipment	1,000	191	(809)
Maintenance of building	500	-	(500)
Maintenance of property and grounds	500	451	(49)
Total Oliver pump station expense	18,300	12,630	(5,670)
14 Mile/Lahser meter station:			
Labor and supervision	6,500	5,917	(583)
Utilities	300	222	(78)
Maintenance of equipment	1,500	6	(1,494)
Maintenance of property and grounds	-	35	35
Total 14 Mile/Lahser meter station expense	8,300	6,180	(2,120)
Quarton/Chesterfield meter station:			
Labor and supervision	6,500	5,571	(929)
Utilities	300	307	7
Maintenance of equipment	2,500	6	(2,494)
Total Quarton/Chesterfield meter station expense	9,300	5,884	(3,416)
14 Mile tank and pump station:			
Labor and supervision	23,500	17,221	(6,279)
Utilities	10,300	9,008	(1,292)
Maintenance of equipment	3,000	4,465	1,465
Maintenance of building	500	89	(411)
Maintenance of property and grounds	2,000	2,014	14
Maintenance of reservoir	500	450	(50)
Maintenance of tanks	1,500	1,083	(417)
Total 14 mile tank and pump station expense	41,300	34,330	(6,970)
Samoset tank operations:			
Labor and supervision	12,000	6,762	(5,238)
Utilities	1,300	980	(320)
Maintenance of equipment	500	450	(50)
Maintenance of building	700	169	(531)
Maintenance of property and grounds	500	-	(500)
Maintenance of reservoir	250	273	23
Total Samoset tank operation expense	15,250	8,634	(6,616)

# Southeastern Oakland County Water Authority

## Other Supplemental Information Schedule of Budget Operating Expenses Analysis (continued) Year Ended June 30, 2008

	Budget	Actual	Over (Under) Budget
Buchanan pump station:			
Labor and supervision	\$ 14,500	\$ 12,190	\$ (2,310)
Utilities	2,300	1,799	(501)
Maintenance of equipment	2,000	2,482	482
Maintenance of building	500	678	178
Maintenance of property and grounds	250	30	(220)
Maintenance of reservoir	500	-	(500)
Total Buchanan pump station expense	20,050	17,179	(2,871)
Engineering administrative:			
Labor and supervision	89,440	79,235	(10,205)
Administrative and office	1,500	36,979	35,479
Personnel improvement	1,000	-	(1,000)
Travel and conferences	500	1,026	526
Total engineering administrative	92,440	117,240	24,800
Administrative and general:			
Labor and supervision	228,112	252,223	24,111
Administrative and office	36,000	40,510	4,510
Personnel improvement	1,500	2,299	799
Travel and conferences	2,500	1,313	(1,187)
Telephone - Office	12,000	20,868	8,868
Legal	9,600	10,863	1,263
Audit	9,600	9,600	-
Social Security	73,500	78,376	4,876
Retirement plan	166,300	146,862	(19,438)
General	63,600	52,065	(11,535)
Group	274,000	286,769	12,769
Workers' compensation	14,500	11,667	(2,833)
Life insurance	3,450	4,154	704
Permit and bonds	1,000	-	(1,000)
Grant expense	20,000	56,702	36,702
Paying agent	650	500	(150)
Miscellaneous expense	5,000	5,386	386
Total administrative expense	921,312	980,157	58,845
Total operating expenses	<u>\$ 12,923,276</u>	<u>\$ 12,238,447</u>	<u>\$ (684,829)</u>

# Southeastern Oakland County Water Authority

## Other Supplemental Information Schedule of Accounts Receivable and Analysis of Charges Year Ended June 30, 2008

	Accounts Receivable Balance July 1, 2007	Water Consumption (1M Cubic	Total Water Charges	Total Billing For Year	Amount Due at Beginning of Year Plus Billing For Year	Total Paid	Accounts Receivable Balance June 30, 2008
Municipalities:							
Berkley	\$ 116,869	55,390	\$ 595,438	\$ 595,438	\$ 712,309	\$ 607,815	\$ 104,494
Beverly Hills	89,156	55,571	597,385	597,385	686,542	638,012	48,530
Bingham Farms	23,533	13,581	145,994	145,994	169,526	153,404	16,122
Birmingham	185,925	130,910	1,407,283	1,407,283	1,593,207	1,462,835	130,372
Clawson	55,450	44,677	480,278	480,278	535,727	454,968	80,759
Ferndale	11,140	2,254	24,229	24,229	35,370	35,370	-
Huntington Woods	60,976	26,644	286,427	286,427	347,402	299,302	48,100
Lathrup Village	30,760	20,976	225,490	225,490	256,250	238,213	18,037
Pleasant Ridge	22,038	13,644	146,672	146,672	168,709	155,255	13,454
Royal Oak	369,014	293,808	3,144,197	3,144,197	3,513,211	3,229,959	283,252
Southfield	727,693	571,447	6,143,059	6,143,059	6,870,752	5,858,272	1,012,480
Rackham	5,117	2,005	21,549	21,549	26,666	26,028	638
Detroit Zoo	32,095	24,679	265,296	265,296	297,393	255,987	41,406
Total	<u>\$ 1,729,766</u>	<u>1,255,586</u>	<u>\$ 13,483,297</u>	<u>\$ 13,483,297</u>	<u>\$ 15,213,064</u>	<u>\$ 13,415,420</u>	<u>\$ 1,797,644</u>



# **Southeastern Oakland County Water Authority**

## **Schedule of Working Capital Analysis**

	June 30	
	2008	2007
Total current unrestricted assets	\$ 2,978,690	\$ 3,009,996
Less current unrestricted liabilities	<u>2,010,392</u>	<u>2,353,571</u>
Total working capital	<u><b>\$ 968,298</b></u>	<u><b>\$ 656,425</b></u>
Annual operating expenses	<u><b>\$ 12,238,447</b></u>	<u><b>\$ 12,406,753</b></u>
Percentage of working capital to annual operating expense	7.91%	5.29%

# **Southeastern Oakland County Water Authority**

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**Report to the Board of Trustees  
June 30, 2008**



**Plante & Moran, PLLC**  
27400 Northwestern Highway  
P.O. Box 307  
Southfield, MI 48037-0307  
Tel: 248.352.2500  
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To the Members of the  
Audit Committee and  
Board of Trustees  
Southeastern Oakland County  
Water Authority

We have recently completed our audit of the basic financial statements of Southeastern Oakland County Water Authority (SOCWA) for the year ended June 30, 2008. In addition to our audit report, we are providing the following letter of increased audit communications, required audit communication, summary of unrecorded possible adjustments, recommendations, and informational comments which impact SOCWA:

	<u>Page</u>
<b>Report on Internal Control</b>	3-5
<b>Results of the Audit</b>	6-9
<b>Other Recommendations</b>	10-13

We are grateful for the opportunity to be of service to Southeastern Oakland County Water Authority. Should you have any questions regarding the comments in this report, please do not hesitate to call.

*Plante & Moran, PLLC*

October 14, 2008

## **Report on Internal Control**

October 14, 2008

To the Members of the  
Audit Committee and  
Board of Trustees  
Southeastern Oakland County  
Water Authority

Dear Board Committee Members:

National auditing standards call for auditors to communicate matters to the governing body that may be useful in its oversight of SOCWA's financial management. Specifically, they require us to report internal control issues to the governing body that may be relatively minor, in order to allow it to evaluate their significance, and make any changes it may deem appropriate. In general, these are items that would have been discussed orally with management in the past. The purpose of these new standards is to allow the governing body an opportunity to discuss issues when they are relatively minor, rather than waiting until they become more serious problems. We hope this report on internal control will be helpful to you, and we look forward to being able to discuss any questions you may have concerning these issues.

In planning and performing our audit of the financial statements of Southeastern Oakland County Water Authority as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered SOCWA's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of SOCWA's internal control. Accordingly, we do not express an opinion on the effectiveness of SOCWA's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. We consider the following to be a control deficiency:

- During our review of the information technology system, we noted that three individuals have access to the financial applications. These three individuals all use the same user name and password to access the financial system. All three have administrative level access to the system and access to all core financial modules within the application. We also noted that two individuals have access to the payroll application, and they use the same user name and password. The payroll system is installed on a single computer, which is not re-booted before use by the other individual. The users have the same level of access in the payroll application, but they perform different functions in the system.
- We recommend that each individual should have their own user name and passwords. One individual should maintain administrative user access; the remaining staff members should have their access to financial modules restricted to only those modules required for daily operations. Additionally, access to modules within the payroll system should be restricted based on the user's needs in the system. If possible, the payroll application should be loaded on two separate computers so the individuals do not share a computer workspace. If the application is only loaded onto one computer, then each person should be required to log in to the computer using their own network user name and password before accessing the payroll application.

A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiency to be a significant deficiency in internal control.

- During our testing of long-term debt, we noted an interest payment was inadvertently booked as an expenditure twice. As a result, interest expense and restricted cash were overstated by approximately \$90,000 in the preliminary accounting records. This was corrected through an audit adjustment. We recommend that management implement a process whereby the interest expense recorded in the general ledger is reconciled to scheduled interest payments on an annual basis.

To the Members of the  
Audit Committee and  
Board of Trustees  
Southeastern Oakland County  
Water Authority

October 14, 2008

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We do not believe the deficiencies described above constitute a material weakness.

This communication is intended solely for the information and use of management, the board, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

**Plante & Moran, PLLC**

A handwritten signature in black ink that reads "Leslie J. Pulver". The signature is written in a cursive, flowing style.

Leslie J. Pulver

## **Results of the Audit**

October 14, 2008

To the Members of the  
Audit Committee and  
Board of Trustees  
Southeastern Oakland County  
Water Authority

We have audited the financial statements of Southeastern Oakland County Water Authority (SOCWA) for the year ended June 30, 2008 and have issued our report thereon dated October 14, 2008. Professional standards require that we provide you with the following information related to our audit.

### **Our Responsibility Under U.S. Generally Accepted Auditing Standards**

As stated in our engagement letter dated August 26, 2008, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. We are responsible for planning and performing the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of SOCWA. Our consideration of internal control was solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters and our audit of the financial statements does not relieve you or management of your responsibilities.

### **Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated to you in our letter about planning matters on September 10, 2008.

## **Significant Audit Findings**

### ***Qualitative Aspects of Accounting Practices***

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our audit services contract, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Southeastern Oakland County Water Authority are described in Note I to the financial statements. The following new accounting policy was adopted in the current year:

- SOCWA's annual bond payment is due on July 1 each year. SOCWA's practice has been to make the bond payment in June. In prior years, management has recorded this payment as a restricted asset at year end and waited to relieve the liability until the payment due date. In the current year, management relieved the liability on the date the payment was made. Generally accepted accounting principles allow early debt payments to either be recorded as a prepaid asset or as a reduction of debt. Management's policy is in accordance with generally accepted accounting principles.

We noted no transactions entered into by SOCWA during the year for which there is a lack of authoritative guidance or consensus.

There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were no sensitive estimates affecting the financial statements.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. There were no sensitive disclosures affecting the financial statements

### ***Difficulties Encountered in Performing the Audit***

We encountered no significant difficulties in dealing with management in performing and completing our audit.



To the Members of the  
Audit Committee and  
Board of Trustees  
Southeastern Oakland County  
Water Authority

October 14, 2008

### ***Corrected and Uncorrected Misstatements***

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. As a result of the audit, we did not identify any uncorrected misstatements.

Significant misstatements detected as a result of audit procedures were corrected by management and are described in our report on internal control matters dated October 14, 2008.

### ***Disagreements with Management***

For the purpose of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### ***Management's Representations***

We have requested certain representations from management that are included in the management representation letter dated October 14, 2008.

### ***Management's Consultations with Other Independent Accountants***

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to SOCWA's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants

### ***Other Audit Findings or Issues***

In the normal course of our professional association with SOCWA, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the organization, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as SOCWA's auditors.

To the Members of the  
Audit Committee and  
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Southeastern Oakland County  
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October 14, 2008

**Other Information in Documents Containing Audited Financial Statements**

Our responsibility relates to SOCWA's financial statements and other information as identified in the auditor's report. We have no responsibility for any other information that may be included in documents containing those audited statements. We do not have an obligation to perform any procedures to corroborate other information contained in these documents.

This information is intended solely for the use of the board of trustees and management of Southeastern Oakland County Water Authority and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

**Plante & Moran, PLLC**

A handwritten signature in black ink that reads "Leslie J. Pulver". The signature is written in a cursive, flowing style.

Leslie J. Pulver

## **Other Recommendations**

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# **Southeastern Oakland County Water Authority**

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## **Other Recommendations**

To the Members of the  
Audit Committee and  
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Southeastern Oakland County  
Water Authority

In an effort to assist SOCWA with improved internal controls, we offer the following recommendations:

### **Use of Personal E-mail for Work-related Messages**

Observations: Staff members within the organization have access to work e-mail accounts (either through socrra.org or socwa.org). However, some individuals use personal e-mail accounts, such as hotmail.com as their primary application for work-related e-mail.

Recommendations: Management should require that all work-related e-mail messages are sent from the organization's e-mail accounts (either socrra.org or socwa.org). This allows for proper security and tracking for work-related messages. Work and personal e-mail accounts should be kept separate and all work-related information should be sent from work e-mail accounts to ensure proper information security.

### **Authentication Controls - Network and Financial Applications**

Observations: During our review, we noted that some of the authentication parameters used to control security on the network and the financial applications are not being enforced per best practice standards, such as all network users with unique IDs, minimum password length, password expiration, enforced password complexity, number of unsuccessful login attempts, and the length of time for the inactive time-out.

Recommendations: Authentication controls should be changed to adhere to the following guidelines.

- All network users with unique user IDs = yes
- Minimum password length = Seven characters
- Password expiration = 90 days or less
- Password complexity = Enforced
- Unsuccessful login attempts = three
- Inactive time-out = 15 minutes

# **Southeastern Oakland County Water Authority**

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## **Other Recommendations**

### **Firewall Log Reviews**

Observations: SOCWA is protected by a firewall; however, firewall logs are not reviewed regularly.

Recommendations: The firewall log review process should be formalized and the logs reviewed at least weekly. This will allow for early detection of any unusual activity or unauthorized attempts to access the network.

### **Documentation of User Access**

Observations: User access to the network, financial applications, and other applications within the organization are not documented. There is no formal process for adding or terminating a user, nor is there is a formal process for changing the level of access for a user.

Recommendations: Management should consider formalizing the process with a paper or electronic new user access form that documents the user's name, department, access required, and date. IT and HR should document the access granted. The forms should be retained for the duration of the user's employment and updated as an employee's access changes or is terminated.

### **Information Security Program**

Observations: SOCWA does not have an information security program that covers virus updates, physical security, logical security, password policies, incident response, disposal of hardware/software, and privacy of customer personal data.

Recommendations: Management should consider creating an information security policy to communicate the policies and procedures that end-users need to follow and adhere to when using the organization's information systems. All users and third parties with access to the network should be required to sign and acknowledge that they have read and understand the program.

A robust information security program allows for proper use of the organization's IT resources. As such, management should include policies regarding virus update, physical security, logical security, password policies, incident response, disposal of hardware/software, and privacy or customer personal data in the information security program.

# **Southeastern Oakland County Water Authority**

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## **Other Recommendations**

### **Upcoming Reporting Change**

The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any “other” postemployment benefits (other than pensions). The intent of the new rules is to recognize the cost of providing retiree healthcare coverage over the working life of the employee, rather than at the time the healthcare premiums are paid. The new pronouncement requires entities to obtain an actuarial valuation every three years if the plan has fewer than 200 participants. Plans with fewer than 100 participants are permitted to use an arithmetic calculation rather than an actuarial valuation. Due to the complexity of the calculation, we recommend that SOCWA consider obtaining an actuarial valuation every three years. The most recent actuarial study of SOCWA’s plan was done as of December 31, 2005. The new pronouncement is effective for SOCWA’s fiscal year ending June 30, 2010.